

# ***Illinois LDC Perspective on Gas Supply***

*Illinois Commerce Commission 2015-2016 Winter Preparedness Policy Session*

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# Introduction

*Statements in this report are generally indicative of the following Illinois utilities:*

- Ameren Illinois
- MidAmerican Energy Company
- Nicor Gas
- North Shore Gas
- Peoples Gas



# Gas Supply Planning Objectives

- Provide safe, reliable and economic natural gas service to our customers
- Contract for transportation, storage, balancing and peaking services capable of meeting forecasted peak design day while economically serving normal and warm weather demand
- Maintain a diversified capacity and supply portfolio by supply basin/market center, pipeline, producer and pricing structure
- Optimize capacity and supply resources to minimize costs for PGA customers
- Engage in hedging to provide insurance against price spikes

## Winter 2014/2015 System Send-out (MMBtu)

	High Day	Low Day	Average Day
Nicor Gas	4,170,996	1,045,125	2,317,127
Ameren IL	1,306,250	349,283	756,160
Peoples Gas	1,642,418	361,224	903,641
North Shore	329,593	65,981	179,046
MidAmerican	100,171	19,180	54,149
Total	7,549,428	1,840,793	4,210,123

## 2015/2016 Forecasted Peak Design Day and Resources (MMBtu)

	Projected Design Day Send-out *	Pipeline Transport & Storage	On-system Storage (Including LNG)	Expected 3rd Party Deliveries
Nicor Gas	5,502,412	2,352,929	2,550,000	599,483
Ameren IL	1,665,205	747,191	558,759	359,255
Peoples Gas	2,145,918	851,055	1,037,363	257,500
North Shore	456,970	382,846	20,000	54,124
MidAmerican	123,060	92,000	12,867	18,193
<b>Total</b>	<b>9,893,565</b>	<b>4,426,021</b>	<b>4,178,989</b>	<b>1,288,555</b>

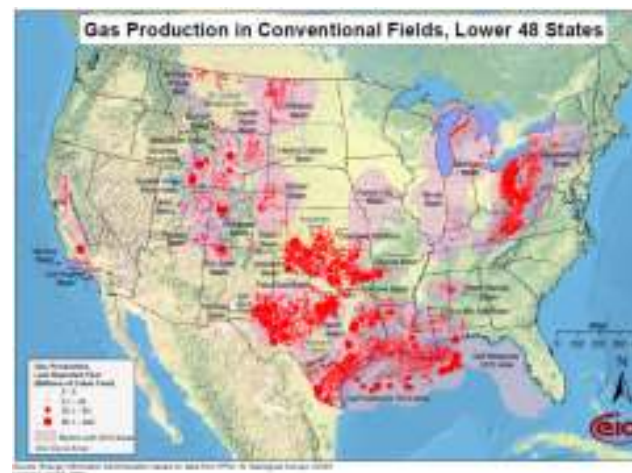
\* Includes reserve margin

# Gas Supply Strategy

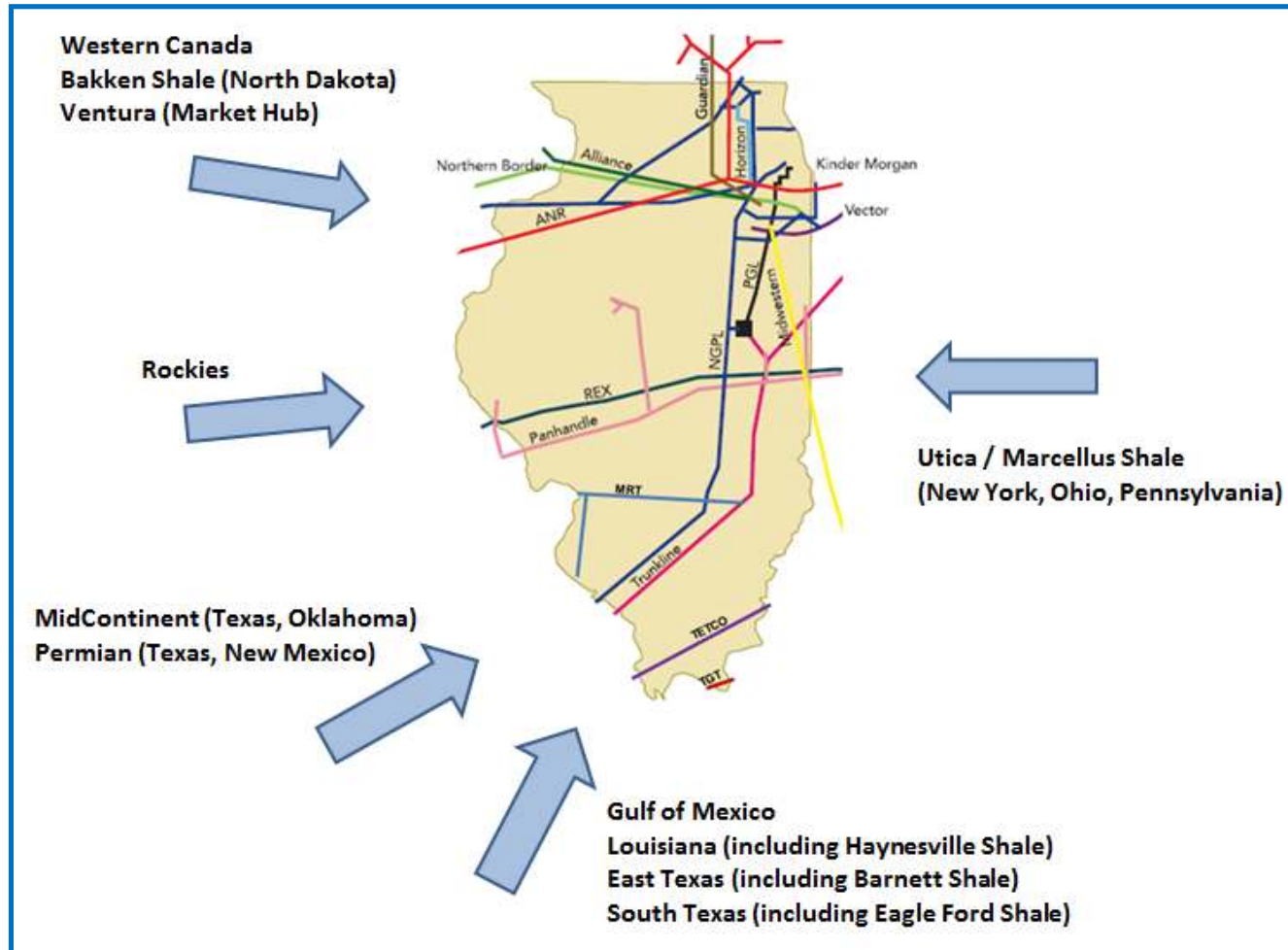
- 100% of firm gas supply requirements for winter periods purchased under firm contracts; competitive bidding for seasonal supply
  - Seasonal baseload purchases; monthly index pricing
  - Seasonal peaking supply purchases; daily index pricing
- Majority of firm gas supply purchased from major producers/marketers such as Anadarko, BG, BP Energy, Chesapeake, Chevron, ConocoPhillips, Shell, Oneok, Sequent and Southwestern Energy; credit worthiness and access to supply
- Forward planning and procurement cycle
  - Transportation and storage secured under long-term contracts
    - Right of first refusal

# Gas Supply Strategy

- Firm transportation capacity back to major production basins and liquid market centers in the U.S.
  - Illinois utilities are in an advantageous location.
- Diversified access to conventional production basins: Midcontinent, Gulf Coast, East Texas, South Texas, Louisiana, Rockies, and Canada
  - Access to shale plays including Fayetteville, Haynesville, Barnett and Bakken; increased access to Utica and Marcellus shale with addition of new infrastructure (Eastern shales hold 40% of US natural gas reserves)
- Leverage capacity resources on interstate pipelines



# Illinois Access to Natural Gas Supply

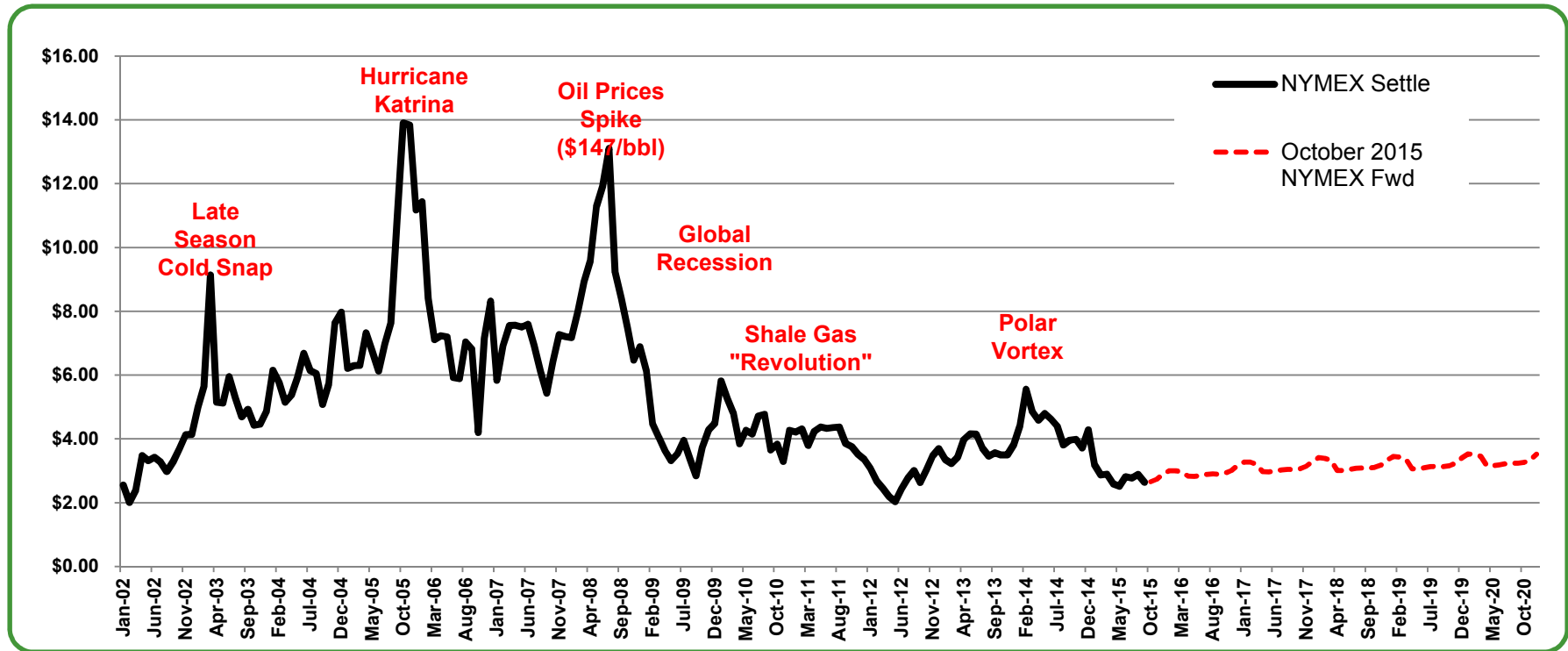




## New Supply to Illinois Markets

- April 2015 ANR SEML project began service bringing .6 Bcf/d of Marcellus and Utica shale gas to the Midwest through a new build pipeline connecting to existing ANR pipelines serving northern Illinois
- August 2015 Rockies Express Pipeline (REX) began bi-directional flow of 1.8 Bcf/d between Pennsylvania and Illinois bringing eastern shale gas to Midwest markets; additional .8 Bcf/d planned in-service for October 2016
- NGPL Chicago Market Expansion will provide an additional 238,000 MMBtu/d of firm capacity from REX to the Chicago market. Estimated in-service date of November 2016
- Energy Transfer Partners' Rover Pipeline Project will bring more the 3.25 Bcf/d of the prolific eastern shale supplies to Midwest markets. This combination of new build pipe and bi-directional service on Panhandle Eastern Pipeline and Trunkline is fully contracted with producer Shippers for 15-20 year terms. Estimated in-service date of December 2016

# NYMEX Natural Gas Futures Prices



Forward Prices: October 15, 2015

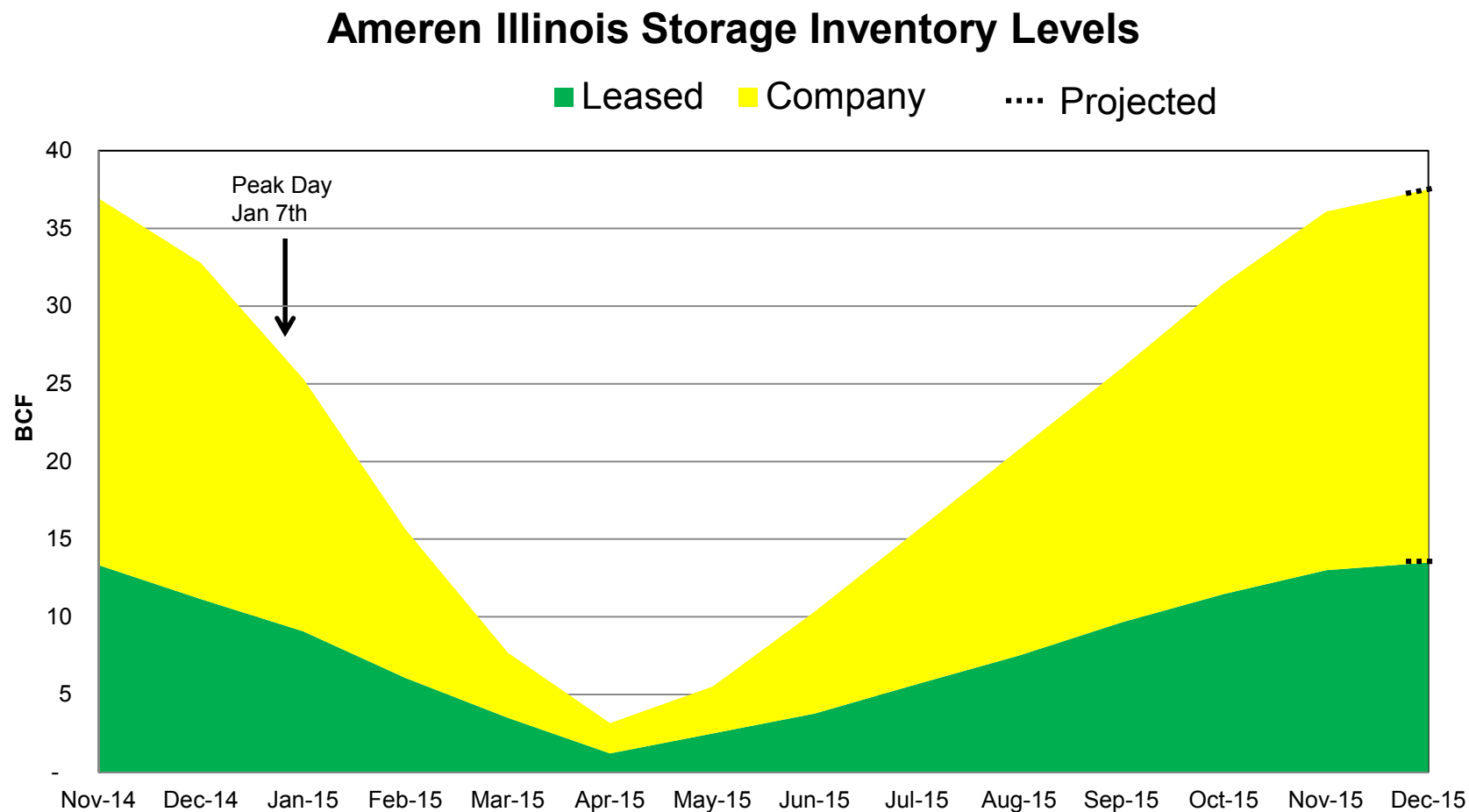
# Price Risk Hedging Strategy

- Hedge target of 50-75% of normal winter demand against market price volatility
  - Hedge transactions generally executed ratably over 12-36 month horizon prior to each winter; layer-in price hedge positions over time “Dollar-Cost-Average”
- Primary methods to hedge system supply:
  - Storage inventory
  - Fixed price physical supply
  - Financially settled options and swaps (over-the-counter or cleared)
    - Fixed/Float swaps
    - Basis swaps
    - Call options
    - Collars
  - Exchange traded futures and options contracts (NYMEX and ICE)
- Target at least 30-50% of gas supply during normal winter from storage
- Financial transactions provide liquidity and diversification of credit risk

## Current Winter Preparations

- Storage inventories will be within planned operating levels at the start of winter except for a few fields that have a normal fill target of mid-November/mid-December
- Seasonal firm gas supply acquisition for winter period is essentially complete
- Price hedging for winter 2015/2016 period is largely complete
- Interstate pipeline capacity to meet peak design day has been secured under firm agreements

# Ameren Illinois Storage Inventory Levels



## Gas/Electric Coordination

- Participated in FERC Docket RM14-2, Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities
- Gas LDC positions were primarily advanced by AGA which supported coordination efforts but cited pipeline infrastructure limitations and reluctance of electric generators to hold firm pipeline capacity as the root causes of winter electric generation reliability issues
- FERC issued an Order 809 directing interstate pipelines to adopt revised nomination cycles which will provide additional flexibility for generators to schedule needed gas supplies, effective 4/1/2016
- FERC declined to move the start of the Gas Day from 9am to 4am finding limited evidence to support such change

## Gas/Electric Coordination

- Northern Illinois natural gas utilities engaged in ongoing discussions with PJM and individual power generators to address firm capacity needs
- Gas distribution system designed for winter peak heating demand. The primary consideration by the gas utilities is maintaining safe, firm reliable service to customers
- As we work with PJM/MISO and our generator customers to explore ways to support increased electricity production, utilities must remain mindful of its obligation not to jeopardize service to its other customers

## Summary

- Natural gas prices are expected to remain relatively stable and NYMEX futures reflect a low price environment for 2016 through 2020
- Gas supply acquisition and price hedging are nearly complete, and storage injections are on schedule for this coming winter
- Based on current forward prices, we expect the PGA rate (per therm) could be 10%-20% lower for the 2015-2016 heating season compared to the 2014-2015 heating season
- Total customer bills predominantly dependent upon usage, which in turn is highly dependent upon weather
- Last winter was 8% colder than normal, this winter ???